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Commission



ACQUISITION OF TECHNOLOGY-BASED FIRMS  
BY TENDER OFFER: AN ECONOMIC AND FINANCIAL ANALYSIS

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Capital Market Working Papers

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# Working Papers

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ACQUISITION OF TECHNOLOGY-BASED FIRMS  
BY TENDER OFFER:

AN ECONOMIC AND FINANCIAL ANALYSIS

Ronald W. Masulis\*

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Dr. Masulis, who is an Assistant Professor of Finance at the University of California at Los Angeles, authored this working paper during his employment as an economic fellow with the Directorate of Economic and Policy Analysis, U.S. Securities and Exchange Commission. Resource support for this paper was provided as a part of the joint project undertaken by the Securities and Exchange Commission and the Department of Commerce Experimental Technology Incentives Program.

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well aware of this possibility, the question arises as to whether this situation affects the ability of small firms to raise capital. If stockholders in small firms benefit from being acquired, then possible future acquisitions should enhance the small firm's ability to raise capital; if stockholders are hurt, possible future acquisitions can be detrimental to the small firm. This issue is explored by focusing on one of the major vehicles for effecting such acquisitions, namely, tender offers.

The objective of this study is to measure the effects of acquisition by tender offer on the stockholders of small firms. To do so, price changes in the common stock of smaller technology-based firms are studied around the tender offer announcement and expiration dates. Further, tender offer premiums and the degree of competition in the tender offer process are analyzed to assess whether tender offer terms in acquisitions of large firms differ systematically from the terms in acquisitions of small firms.

2. OVERVIEW OF THE TENDER OFFER MECHANISM

Defined by its basic characteristics, a tender offer is an offer to purchase stock of a firm (1) at a fixed offer price, (2) for a fixed period of time, and (3) with possible limitations on the minimum and maximum number of shares to be purchased. Generally, the offer price exceeds the stock's market price prior to the offer announcement, and this differential is often termed the offer premium.

Corporate takeover and/or acquisition by means of tender offers has increased sharply over the last fifteen years. Regulation of this activity came with the passage of the Williams Act in 1968. The Williams Act and the rules and regulations promulgated thereunder by the Securities and Exchange Commission ("SEC") set forth disclosure requirements, impose a minimum offer period, and establish anti-fraud provisions applicable to tender offers. Accordingly, the bidder in a public tender offer must file a Schedule 14D disclosure form with the SEC prior to commencing the offer. Tender offers must be outstanding for ten days (recently revised to twenty business days 1/) and, in oversubscribed offers, purchase of stock tendered must be on a pro rata basis. Finally, the general anti-fraud provisions prohibit material misstatements, omissions or other deceptive actions in connection with any tender offer.

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1/ Securities Act Release No. 6158 (November 29, 1979).

all publicly available information concerning securities' expected future cash flows. Thus, in an efficient capital market, the public announcement of a forthcoming tender offer should induce price adjustments in the firm's securities which capitalize the tender offer effects on a stockholder's expected cash flows. Given a stockholder's ability to tender his stock at an offer premium, Bradley (1980) shows that a stock's price, once a tender offer is announced,  $P_A$ , must equal a weighted average of the offer price,  $P_T$ , and the expected post-offer stock price,  $\bar{P}_E$ ; that is,

$$(1) \quad P_A = \bar{\alpha} P_T + (1 - \bar{\alpha}) \bar{P}_E ,$$

where  $\bar{\alpha}$  = the expected fraction of shares tendered and purchased. 2/

This relationship simply reflects the stockholder's expected future cash flows, where  $\bar{\alpha}$  can be interpreted as the probability of a stockholder receiving the tender offer price, while  $\bar{P}_E$  is the present value of the expected future cash flow to post-offer stockholders.

By subtracting and dividing both sides of the above equation by the pre-announcement stock price,  $P_0$ , this relationship can be transformed into

$$(2) \quad R_A = \bar{\alpha} PREM + (1 - \bar{\alpha}) \bar{R}_O ,$$

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2/ This definition of  $\bar{\alpha}$  assumes that once an offer is announced, it is not cancelled.

$R_A = (P_A - P_O)/P_O$  = stock's announcement period return; $PREM = (P_T - P_O)/P_O$  = offer premium; and $\bar{R}_O = (\bar{P}_E - P_O)/P_O$  = stock's expected offer period return.

Equation (2) states that a stock's announcement period return is equal to a weighted average of the offer premium and expected offer period return (which reflects the expected "permanent" change in stock price due to the offer). As a consequence of this relationship, a stock's announcement period return can be interpreted as capturing effects of both the transitory offer premium and the expected permanent change in stock price due to the offer.

Given that stockholders in the target firm can have heterogeneous expectations of their stock's current value and heterogeneous unrealized capital gains liabilities, a number of stockholders may not find it in their best interests to tender at a given offer premium. Consequently, the existence of a tender offer premium does not insure that all stockholders are made better off in a tender offer. Post-offer minority stockholders will be better off only if the post-offer stock price exceeds the pre-announcement stock price or, equivalently, if the offer period return is positive. Consequently, in evaluating the effects of tender offers on target stockholders, the magnitude of the offer premium and the sign and the magnitude of the offer period return must be considered. Furthermore, the announcement period return can be viewed as a means of jointly evaluating the two effects of the tender offer.

hypotheses, benefit the non-tendering stockholders as well. Manne (1965), and more recently Dodd-Ruback (1977), hypothesize that tender offers may be motivated by (1) an expectation of increasing the target firm's internal efficiency through a take-over of control, and (2) an expectation of realizing synergistic benefits or monopoly power through a merger with the bidder. Grossman-Hart (1980a, 1980b) posits a third hypothesis which assumes that bidders invest in the production of new information to determine which potential target firm stocks are underpriced. However, a bidder can only capture the value of this non-public information through a tender offer for the target shares at an offer price below the shares' market value if the new information was to become public. Then unless a bidder is able to dilute the value of the holdings of minority stockholders remaining after expiration of the offer, all stockholders individually will choose not to tender, since they can deduce that the stock must be worth more than the tender offer price.

All three hypotheses predict positive offer premiums and stock price increases for target firms on the announcement of a tender offer. Further, the third hypothesis predicts that after offer expiration the target firm's stock price will fall relative to its pre-announcement price to reflect expected minority stockholder dilution, while the first two hypotheses predict a post-expiration price exceeding its pre-announcement price.

The common implication of the first two hypotheses for the target firm's stockholders is that a tender offer will be to their benefit because:

(2) the post-offer stock price is also above the pre-announcement stock price. Consequently, whether a stockholder tenders or not, he must gain from the offer. However, under the third hypothesis, the post-offer price will be below the pre-announcement stock price, so that the stockholder's welfare is uncertain because even if he does tender all his shares, all shares tendered may not be purchased, and the stockholder will lose on the shares held after the offer expires. Further, if the stockholder chooses not to tender, his welfare is adversely affected. Consequently, if this third hypothesis has empirical validity, capital formation capabilities of smaller technology-based firms can be inhibited by the possibility of a future tender offer.

#### 4. REVIEW OF EXISTING EMPIRICAL EVIDENCE

At present, three carefully executed studies of tender offer effects exist in the academic literature: Bradley (1980), Dodd-Ruback (1977), and Jarrell-Bradley (1980). Each of these studies analyzes New York Stock Exchange ("NYSE") and American Stock Exchange ("ASE") listed target firms.<sup>3/</sup> All three studies analyze stock price adjustments or stock returns around the tender offer announcement for both target and bidding firms. In addition, Bradley analyzes the stock price changes at offer expiration and assesses the empirical significance of the relationship defined by equation (1):

$$(1') \quad P_A = \alpha P_T + (1 - \alpha) P_E ,$$

where actual values have been substituted for the expected values,  $\alpha$  and  $P_E$ .

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3/ While Dodd-Ruback studies monthly stock returns, Bradley and Jarrell-Brown study daily stock price changes.

positive announcement date price adjustments for bidding firms. These studies also stratify their samples into successful and unsuccessful offers (with success defined in terms of the number of shares tendered relative to the number sought) and find relatively little difference in the two subsamples' offer premiums or announcement period price changes. 4/

Focusing on successful offers, Bradley observes a small price decline of .04% for target stocks at offer expiration. However, on average, the target stock's post-offer price exceeds its pre-announcement price. In the case of unsuccessful offers, the post-expiration price of the target firm's stock is usually above both its pre-announcement price and its offer price. Bradley also estimates a linear regression based on the relationship expressed in equation (1') to test its empirical validity and finds the coefficients to be statistically significant and capable of explaining 88% of the cross-sectional variation in the announcement price changes of 161 target firms. 5/ Austin (1980) studied the basic characteristics of all tender offers made in the 1978-1979 period, including comparisons with earlier periods. One important piece of

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4/ For example, Dodd-Ruback reports that the announcement period stock returns in successful offers for 124 targets and 48 bidders averaged 20.9% and 2.8%, respectively; for unsuccessful offers, the stock returns for 36 targets and 48 bidders averaged 1% and .6%, respectively.

5/ Jarrell-Bradley also reports a statistically significant rise in offer premium, offer duration, and announcement period returns of target stocks over the last 15 years, which is claimed to be the result of increasingly stringent government regulation of tender offers.

e period 1976 through mid-1979; the median value found by Austin  
s 20%. 6/

While these studies indicate that tender offers are beneficial to  
stockholders of NYSE and ASE listed target stocks, it is not clear that  
these results also hold for over-the-counter ("OTC") traded stocks  
technology-based firms, which are generally smaller than firms  
listed on the NYSE or the ASE. This study will attempt to answer  
an important question. Another important question, though not  
addressed here, is the effect of acquisitions on the bidding firm's  
stockholders.

#### DATA DESCRIPTION

The basic data sources for the tender offers studied in this paper  
are the SEC Statistical Bulletin and the SEC News Digest, which list  
1 Schedule 14D filings (Schedule 13D filings before August 1977)  
th the SEC. Since the passage of the Williams Act in 1968, bidding  
rms in most tender offers must file a disclosure statement (i.e.,  
chedule 14D) with the SEC prior to offer commencement. 7/

During the sample period (mid-1973 through the end of 1979), there  
re 844 separate Schedule 14D filings with the SEC, of which approximately  
8 were for OTC traded target firms. Of particular interest  
this study is that group of offers which were made for technology-

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The offer premium is calculated using as the pre-announcement  
price the closing price two weeks prior to the announcement  
of an offer.

See Aranow-Einhorn-Berlestein (1977) for additional details.

In all, 45 offers for technology-based target firms were found. ever, reliable daily quotes for these firms' common stocks were available for only the 27 firms listed on the National Association of Security Dealers Automated Quotations System ("NASDAQ"). The source for these quotes is the Standard & Poor's OTC Stock Price Record. The characteristics of target firms and bidders differ considerably. Description of the bidding and target firms represented in the sample provided in Table 2, along with book value data. The median book value of the target firms is \$21.0 million, while that of the bidding firms is \$396.2 million. Competition for target firms at the time the tender offer is limited, with only three competing offers found in the sample. This finding is similar to that reported in Masulis (1979), a study of tender offers for NYSE and ASE listed target companies in the period 1974-1978. Of the U.S. corporations included among the bidding firms, about one-half are from technology-based industries. Significantly, almost one-third of the bidding firms are foreign corporations or foreign-controlled U.S. companies. The sources for the book value figures were Standard & Poor's OTC and Industrial Manuals, Schedule 14D filings, and Fortune Magazine's "Directory of the 500 Largest Industrial Corporations Outside the U.S."

As seen in Table 3, bidders often hold a substantial percentage of the target firm's outstanding stock prior to the tender offer, while after

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The individual firms' major industry classifications are derived from the SEC Corporation Index (as of March 1979).

TABLE 1

TECHNOLOGY-BASED INDUSTRIES\*

<u>SIC Industry Definition</u>	<u>SIC Code</u>
Industrial inorganic chemicals	281
Plastic materials and synthetic resins, rubber and man-made fibers, except glass	282
Drugs	283
Industrial organic chemicals	286
Miscellaneous chemical products	289
Special industry machinery, except metal working machinery	355
Office computing and accounting machines	357
Communication equipment	366
Electronic components and accessories	367
Miscellaneous electrical machinery equipment and supplies	369
Aircraft and parts	372
Engineering laboratory, scientific research instruments and associated equipment	381
Measuring and controlling equipment	382
Optical instruments and lenses	383
Surgical, medical, dental instruments and supplies	384

\*The source for this classification is Charles River Associates, An Analysis of Venture Capital Market Imperfections, prepared for the U.S. Department of Commerce, Experimental Technology Incentives Program (February 1976).

TABLE 2

## SIZE OF TECHNOLOGY-BASED OTC TARGET FIRMS AND BIDDING FIRMS

Target Firm	Book Value (\$ Millions)	Bidding Firm	Book Value (\$ Millions)
Block Engineering, Inc.	5.656	Bio-Rad Laboratories**	10.792
Block Engineering, Inc.	5.656	Instrumentation Laboratory**	45.383
Victor Graphic Systems	6.185	Victor Comptometer	28.189
Data Card Corp.	6.209	Deluxe Check Printer, Inc.	103.625
Vega Precision Laboratories, Inc.	7.209	Compudyne Corp.	28.189
Matalized Ceramics Corporation	8.111	Rosenthal Technik U.S.A. Limited*	NA
Electro-Nite Co.	8.590	Yates Industries, Inc.	42.530
Viking Industries, Inc.	12.490	Heath Techna Corporation**	40.336
Carterfone Communication Corp.	14.316	Cable & Wireless, Delaware, Inc.*	425.430
Archon Inc.	14.369	Iroquois Brands, Ltd.*	30.394
Tally Corp.	17.661	Mannesmann AG*	3,729.000
American Telecommunications Corp.	17.862	General Dynamics Corp.**	1,601.069
Owermeyr Corp.	19.980	AGI Investments Pty. Ltd.*	698.618
Ventron Corp.	21.036	Aquitaine of North America (in Canadian \$)*	367.044
Ventron Corp.	21.036	Thiokol Corp.**	208.496
Burdox Inc.	24.663	Gas Accumulator Corp.*	616.320
Littronix, Inc.	27.171	Siemens*	8,229.723
Comten, Inc.	27.532	NCR**	2,596.161
Oil Base, Inc.	29.117	Hughes Tool Co.	669.388
Gray Tool Company	30.119	Petrolane Inc.	298.071
Liquidionics Industries, Inc.	31.580	Combustion Engineering Inc.	1,094.485
Microdata Corp.	31.648	VSI Corporation	102.637
Morgan Adhesives Co.	56.698	McDonnell Douglas**	3,098.229
Mostek Corp.	72.428	Bemis Co., Inc.	326.024
Foster Grant Co., Inc.	90.692	United Technologies**	4,074.235
Foster Grant Co., Inc.	109.631	United Brands Co.	1,117.839
		United Brands Co.	1,237.908

DISTRIBUTION OF BIDDER HOLDINGS OF TARGET STOCK  
BEFORE AND AFTER THE TENDER OFFER

Bidding Firm	Pre-Offer Bidder Stockholdings as % of Stock Outstanding	Post-Offer Bidd Stockholdings a of Stock Outsta
United Brands Co.	39.8	54.2
United Brands Co.	54.2	69.9
Bemis Co., Inc.	69.0	76.0
Deluxe Check Printers, Inc.	0*	72.7
Aquitaine of North America +	0	withdrew
Victor Comptometer+	69.0	96.0
Thiokol Corp.+	0	94.7
Petrolane Inc.+	0	withdrew
Combustion Engineering Inc. +	34.0	99.3
Rosenthal Technik U.S.A. Limited+	0	99.9
Iroquois Brands, Ltd.+	35.2**	99.0
Gas Accumulator Corp.+	0	98.3
Yates industries, Inc.+	12.7	20.8
Cable & Wireless, Delaware, Inc.+	0	99.0
Heath Tecna Corporation+	0	49.2
Bio-Rad Laboratories+	32.0	100.0
Instrumentation Laboratory+	0	withdrew
VSI Corporation+	79.0	96.3
General Dynamics Corp.	0	40.5
Mannesman AG Inc.	31.0	99.9
Siemens	80.0	99.8
NCR Corp., Inc.	0	45.4
CompuDyne Corp.+	0***	93.6
McDonnell Douglas	0	96.0
Hughes Tool Co.+	57.8	98.9
ACI Investments Pty. Ltd.	0	25.0
United Technologies Corp.	20.8	92.2

+ Sought all non-bidder owned stock outstanding.

\* Held debentures convertible into 323,077 shares. There were 1,475,000 shares outstanding.

\*\* Also held options to buy 19.5% of stock, which was exercised before expiration of the tender offer.

\*\*\* Entered into agreements to buy 25.6% of stock, which were implemented before expiration of the tender offer.

ntrol and often almost complete ownership of the target firm's stock. This finding reflects the fact that in two-thirds of the offers, all non-bidder held shares were sought (defined as "any and all" tender offers). Apparently, bidders do not simply want management control, but rather 100% ownership of target firms.

A more detailed description of the shares sought, tendered, and purchased is offered in Table 4. From this table, it can be seen that only five of the tender offers in the sample were oversubscribed, which is to be expected given that most offers are for all non-bidder held stock. Further, there was pro rata purchase of stock in only two cases. In the other oversubscribed offers all stock tendered was purchased, even though less was sought. The sources for Tables 3 and 4 are the individual Schedule 14D filings and the Wall Street Journal Index.

The two key dates in this study are the initial offer announcement and offer expiration dates. The sources for the initial offer announcement dates are the offer prospectus and the Wall Street Journal Index, while the source for the offer commencement and expiration dates is the individual Schedule 14D filings. Table 5 lists the initial announcement, commencement, and expiration dates of each tender offer (where the date is in order of year/month/day). Note that two-thirds of the offers are in the second half of the sample period. The median duration of these tender offers is 23 business days, while the initial announcement of the offer precedes the commencement date by less than a week for half the offer sample. In a study of 153 tender offers for NYSE and ASE listed target firms over the period 1974-1978, Masulis (1979) found a median length between terms

## STOCK SOUGHT, TENDERED, AND PURCHASED IN TENDER OFFERS

Bidding Firm	% Sought of Stock Outstanding	% Tendered of Stock Outstanding	% Purchas of Stock Outstandi
United Brands Co.	27	14	14
United Brands Co.	9	16	16
Bemis Co., Inc.	12	7	7
Deluxe Check Printers, Inc.	44	73	73
Aquitaine of North America	100	0	0
Victor Comptometer	11	7	7
Thiokol Corp.	100	95	95
Petrolane Inc.	100	0	0
Combustion Engineering, Inc.	66	65	65
Rosenthal Technik U.S.A. Limited	100	100	100
Iroquois Brands, Ltd.	45	46	46
Gas Accumulator Corp.	100	98	98
Yates Industries, Inc.	87	8	8
Cable & Wireless, Deleware, Inc.	100	99	99
Heath Tecna Corporation	100	49	49
Bio-Rad Laboratories	68	68	68
Instrumentation Laboratory*	100	0	0
VSI Corporation	21	17	17
General Dynamics Corp.	45	41	41
Mannesmann AG	69	69	69
Siemens	20	20	20
NCR Corp., Inc.	45	61	45
CompuDyne Corp.	75	68	68
McDonnell Douglas	100	96	96
Hughes-Tool Co.	42	41	41
ACI Investments Pty. Ltd.	20	34	25
United Technologies Corp.	79	71	71

\* Offer withdrawn.

## TENDER OFFER PERIODS

Target Firm	Initial Announcement	Commencement	Final Expiration
c Grant Co., Inc.	730521	730522	730604
c Grant Co., Inc.	740215	740412	740503
n Adhesives Co.	750516	750519	750620
ard Corp.	750521	750522	750616
on Corp. (1)	760507	760618	760628
c Graphic Systems	760719	760719	760831
on Corp. (2)	760729	760806	760830
Tool Company (1)	760928	761001	761022
Tool Company (2)	761020	761022	761110
ized Ceramics Corporation	770712	770727	770831
n Inc.	771020	771115	771229
x Inc.	771213	771213	780120
ro-Nite Co.	771214	780104	780130
rfone Communications Corporation	771021	771228	780209
g Industries, Inc.	780203	780228	780320
Engineering, Inc. (1)	780228	780512	780614
Engineering, Inc. (2)	780322	780519	780531
donics Industries, Inc.	780706	780706	780821
can Telecommunications Corp.	780404	780927	781012
Corp.	781204	781204	790111
inx, Inc.	781025	781025	790130
n, Inc.	790119	790122	790213
Precision Laboratories, Inc.	781222	790214	790320
data Corp.	790719	790816	791003
ase, Inc.	790731	790801	791012
yer Corp.	791017	791017	791113
x Corp.	790926	790928	791115

announcement and final expiration of 23 business days, thus indicating that the offers in the present study are very similar in terms of offer duration to the more extensively analyzed tender offers for NYSE-ASE listed target firms.

6. METHODOLOGY FOR ASSESSING THE SIGNIFICANCE OF ANNOUNCEMENT EFFECTS

The approach utilized in this study to assess the impact of new information on security prices is termed the Comparison Period Return approach. This method averages stock returns for common event dates to create a time series of portfolio returns, where an event date is a defined number of trading days before or after the particular announcement date under study (defined as "day 0"). The announcement period is defined to include day 0 and, in addition, "day + 1." The day +1 return is included to capture the effects of announcements made after the close of trading on day 0.

To assess the impact of tender offer announcements on a sample of common stock daily returns (unadjusted for contemporaneous market effects), first a time series of these stock returns prior to and after the offer date under study is obtained and defined as the "comparison period" returns (excluding the announcement period days 0 and +1). The mean daily return of this time series represents the security's "normal" return, assuming the return process is stationary and that the time series is representative of the security's return distribution. Forming a portfolio of these daily returns in event time allows us to invoke the Central Limit Theorem (given that these returns are from noncontemporaneous calendar time and therefore are independent in event time) to justify a t-test of the significance of the difference between the portfolio's announcement period mean daily return and comparison period mean

price, the null hypothesis of equal means should be rejected in favor of the alternative hypothesis of an announcement effect. 10/ Brown-Warner (1980) compares the power of this methodology and the standard market model approaches and concludes that, for the case of noncontemporaneous announcement dates, the Comparison Period Returns approach is at least as powerful and often more powerful than standard market model approaches in assessing the impact of new information on stock prices. In applying the Comparison Period Returns approach, it is assumed that the appropriate length of the comparison period is twenty trading days before and after the two-day announcement period.

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9/ See Mood-Graybill-Boes (1974), p. 435. This is a standard difference of means test statistic which is t-distributed with parameter  $T_1 + T_2 - 2$ :

$$t = \frac{\bar{r}_1 - \bar{r}_{to}}{\sqrt{\frac{(T_1 - 1)s_1^2 + (T_2 - 1)s_2^2}{T_1 + T_2 - 2}} \sqrt{\frac{1}{T_1} + \frac{1}{T_2}}}$$

where  $T_1$  = number of portfolio daily returns in the comparison period;

$T_2$  = number of portfolio daily returns in the announcement period;

$\bar{r}_1$  = portfolio's comparison mean daily return;

$s_1$  = standard deviation of the comparison period mean daily return;

$\bar{r}_{to}$  = portfolio's announcement period mean daily return; and

$s_2$  = standard deviation of the announcement period mean daily return.

The test procedure used here is similar in spirit to tests using a matched pair comparison, although the pairs are of unequal size. Note that this t test assumes that the true standard deviations for the two periods are equal.

10/ A more detailed discussion of this methodology is found in Masulis (1980).

In evaluating the effect of tender offers on target stockholders, three measures need to be considered: the offer premium; the offer period return; and the weighted average of the two effects (as reflected in the announcement period return). Table 6 presents the individual offer premiums, where the offer premium is defined as the offer price minus the stock price one trading day prior to the announcement of the offer's terms, all divided by the latter price. All but two of the offer premiums are positive, as is to be expected. 11/ The median premium is 21%, which is almost identical to the median premium found in Austin's study of all tender offers over the 1976 - mid-1979 period. This strongly suggests that tendering stockholders of smaller technology-based firms benefit as much as other OTC, NYSE and ASE target stockholders who tender. Finally, it is interesting to note that the size of the premium does not seem to be closely related to the percentage of outstanding stock being sought or to the percentage of non-bidder owned stock sought.

While positive offer premiums indicate that tendering stockholders in "any and all" tender offers are made better off, this does not imply that the remaining minority stockholders are better off as well. However, if the offer period returns (defined as the stock price one trading day

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11/ In the two cases of nonpositive premiums, the announcement of the offer's terms occurred after an initial announcement of a possible purchase of stock, and as a consequence, the premium is hidden by the initial stock price rise at the time of the initial announcement. If the pre-announcement price was based on this initial announcement date, large premiums would be implied in both cases.

TABLE 6

OFFER PREMIUMS AND PERCENT OF OUTSTANDING STOCK  
AND NON-BIDDER OWNED STOCK SOUGHT

Target Firm	Offer Premium	Percent of Outstanding Stock Sought	Percent of Non-Bidder Owned Stock Sought
ent, Inc.	-.10	45	45
rgan Adhesives Co.	0	12	39
odox Inc.	.01	100	100
thon Inc.	.10	45	69
y Tool Company (2)	.10	66	100
uidonics Industries, Inc.	.10	21	100
rodata Corp.	.10	100	100
tron Corp. (1)	.10	100	100
merican Telecommunications Corp.	.13	45	45
ta Card Corp.	.13	44	44
ctro-Nite Corp.	.18	87	100
Base, Inc.	.19	42	100
ting Industries, Inc.	.20	100	100
ermeyer Corp.	.21	20	20
tron Corp. (2)	.22	100	100
ctor Graphic Systems	.28	12	100
tronix, Inc.	.32	20	100
ock Engineering, Inc. (2)	.36	100	100
ster Grant Co., Inc.	.41	9	20
stek Corp.	.41	79	100
y Tool Company (1)	.42	100	100
ster Grant Co., Inc.	.48	28	47
ga Precision Laboratories, Inc.	.50	75	75
ly Corp.	.58	69	100
rtfone Communications Corporation	.63	100	100
ock Engineering, Inc. (1)	.71	68	100
alized Ceramics	1.82	100	100
1st Quartile	.10	28	47
Median	.21	68	100
Mean	.32	62	82
3rd Quartile	.42	100	100

after final expiration minus the stock price one trading day prior to the terms announcement date, all divided by the latter price) are positive, then it can be concluded that all the target firm's stockholders are made better off by the tender offer. Table 7 presents the offer period returns for all but six of the non-withdrawn tender offers. In these six cases, no reliable quotes were available after offer expiration, so that the offer period return could not be calculated. In all but two of the remaining offers, the offer period returns were positive, while the median offer period return was 21.4%. Together, these two observations indicate that the minority stockholders were also generally made better off.

As an alternative means of evaluating the total benefit to target stockholders of a tender offer, we will look at the stock return at the date of announcement of offer terms. 12/ Looking at the announcement period returns also enables us to compare the average benefit to the stockholders of small technology-based firms with that experienced by stockholders of larger NYSE and ASE listed target firms. Examining the portfolio's returns surrounding the initial announcement of tender offer terms yields the results shown in Table 8. This portfolio's announcement period mean daily return, representing 27 target firms' stock, is 9.2%. In contrast, the mean daily return in the 40-day comparison period is .7%. The t statistic for the difference between these mean daily returns is 11.9, which is statistically significant at the 1 percent level.

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12/ The date of announcement of offer terms coincides with the initial announcement of an offer in a majority of cases. However, when separate announcements are made, the analysis is based on the final price change occurring around the date of announcement

OFFER PERIOD RETURNS AND PERCENT OF OUTSTANDING  
STOCK SOUGHT FOR TARGET FIRMS\*

Target Firms	Common Stock Offer Period Returns (%)	% of Outstanding Stock Purchased
McMeyer Corp.	-11.9	25
ing Industries, Inc.	-6.5	49
agan Adhesives	1.9	7
ten, Inc.	2.6	45
uidonics Industries, Inc.	10.0	17
Base, Inc.	19.2	41
tron Corp.	19.4	95
merican Telecommunications Corp.	20.4	41
odata Corp.	20.7	96
ctro-Nite Co.	22.1	8
ctor Graphics Systems	25.0	4
ronix, Inc.	29.6	20
ly Corp.	35.2	69
tek Corp.	39.2	71
a Precision Laboratories, Inc.	42.9	68
a Card Corp.	45.7	73
ck Engineering, Inc.	94.2	68
alized Ceramics Corporation	170.5	100
Minimum	-11.9	4
1st Quartile	10.0	20
Median	21.4	47
Mean	32.2	50
3rd Quartile	39.2	71
Maximum	170.5	100

Only 18 non-withdrawn offers had post-expiration prices available for computing offer periods returns.

Event Day	Portfolio Daily Return (%)	Percentage of Stock Daily Returns Strictly Positive
-20	.001	.259
-19	.013	.296
-18	.006	.370
-17	.004	.407
-16	.041	.444
-15	.002	.259
-14	.006	.333
-13	.024	.296
-12	.017	.370
-11	.014	.333
-10	.016	.296
-9	.001	.222
-8	.007	.259
-7	-.003	.185
-6	.002	.259
-5	.009	.222
-4	.006	.222
-3	.007	.370
-2	.018	.444
-1	.004	.333
0	.131	.741
1	.053	.519
2	.002	.259
3	.012	.407
4	.011	.307
5	.007	.222
6	.003	.222
7	.002	.222
8	.002	.185
9	.004	.259
10	.004	.222
11	.006	.296
12	.006	.296
13	.000	.185
14	.007	.333
15	.003	.259
16	.004	.259
17	.002	.185
18	.002	.074
19	-.001	.222
20	-.003	.185
21	-.001	.111

Inception Period:

Portfolio Daily Return (%) = 9.2  
 Standard Deviation (%) = 5.5

Comparison Period:

Mean Portfolio Daily Return (%) = ..  
 Standard Deviation (%) = 1.

The two-day announcement period return is 19.3%, which is identical to the announcement period return observed by Dodd-k. 13/ This evidence also suggests that target stockholders of smaller technology-based firms benefit from tender offer to the same degree as holders of larger firms with stock listed on the NYSE and ASE. In these results support the conclusion that tender offers are, on average, beneficial to target stockholders and that the size of these effects appears to be similar to those realized by larger target firms. While tender offers are usually beneficial, the question remains as whether this conclusion holds for all the tender offers in the sample. 9 indicates that only three of 27 stocks do not have strictly positive two-day announcement period returns. Furthermore, as predicted by equation (2), there is a positive relationship between the magnitude of the announcement period return and the offer premium. However, no strong relationship between the announcement period return and the offer yield return is observed, where  $\bar{P}_E$  is assumed to be equal to the stock's price the day following offer expiration. This latter result reflects the fact that most of the offers in the sample were for "any and all" stock and only two offerors purchased stock on a pro rata basis. Thus, the probability of having stock tendered and purchased is large, so that  $(1 - \alpha)R_O$  is generally quite small, as is the  $(1 - \alpha)R_O$  term in equation (2). The resulting prediction is that a close relationship exists between the announcement period return and the offer premium, which is consistent with the observed relationship.

TABLE 9

## COMMON STOCK ANNOUNCEMENT PERIOD RETURNS FOR TARGET FIRMS

Two-Day Announcement Return	Offer Premium	Offer Period Return	Fraction Sought of Stock Outstanding
-.09	-.10	.03	.45
0	0	.02	.12
0	.10	.10	.21
.01	.01	—	1.00
.04	.36	—	1.00
.05	.10	—	.66
.05	.28	.25	.12
.06	.10	.21	1.00
.06	.13	.20	.45
.07	.21	-.12	.20
.09	.10	—	.45
.10	.19	.19	.42
.11	.13	.46	.44
.12	.42	—	1.00
.13	.41	—	.09
.15	.20	-.07	1.00
.16	.22	.19	1.00
.22	.10	—	1.00
.23	.32	.30	.20
.23	.71	.94	.68
.24	.18	.22	.87
.34	.41	.39	.79
.35	.63	—	1.00
.36	.50	.43	.75
.42	.48	—	.28
.56	.58	.35	.69
1.06	1.82	1.70	1.00
Quartile an	.05 .12 .19	.10 .21 .32	.28 .68 .62
Quartile	.24	.42	1.00

In general, stockholders of smaller technology-based target firms appear to benefit from tender offer activity. As a result, capital formation by these firms is enhanced by the possibility that stockholders will eventually be able to sell their stock at a tender offer premium. The overall findings of this study consistently support the conclusion that tender offers for smaller technology-based firms are very similar in character and effect to other tender offers which have previously been studied. Consequently, even though there is a relatively small number of tender offers in the sample, the consistency of the results with the earlier findings based on much larger sample sizes suggests that these results are more robust than their sample size would indicate.

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